



Remarks For

The Hon. Jovita Carranza
Deputy Administrator
U.S. Small Business Administration

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Thank you, Nick [Owens], for that very nice introduction.

Let me first say, welcome to Washington. It's a pleasure to speak with all of you today. The work you do to help protect small businesses from unfair regulatory enforcement is critical for America's entrepreneurs.

America's small businesses are very fortunate to have such a dedicated group. They are also very fortunate to have such a dedicated National Ombudsman in Nick Owens. His office has handled about 500 cases this year, which is tremendous work and important for helping small businesses fight unfair or overzealous enforcement.

Everyone at SBA is in this line of work because we want to help small business owners. We recognize the important role that small businesses play in their communities, and in our economy.

Small business has an enormous impact on our country. They:

- Employ half of the private sector workforce and create more than two-thirds of net new jobs.
- Account for half of nonfarm GDP.
- Are major drivers of innovation.
- Account for about 30 percent of our exports.
- They are the underpinning for transformation in many of the underserved communities in our country.

- And small business ownership is the path to a better life for millions of Americans.

When you consider the immensely important role that small businesses play, it's clear how important is it for us to enact the right policies.

Understanding the right policy means first understanding the challenges that small firms face. I know that for many of you, this is a challenging time.

I understand the difficult position that you, and many other small business owners like you, are put into by the high price of energy. It seems like the price of oil hits a new record every week. Other costs, including food, are also going up. And for many small businesses, this is compounded by a more challenging sales environment.

Confidence in the economy is particularly important for small businesses. When deciding whether to invest in expanding their business, which may require taking on new debt, business owners want to be confident that the economy will be strong and customers will continue spending.

We know that confidence among small businesses has declined in recent months and general concerns about the state of the economy have increased.

After 52 consecutive months of job growth and strong economic results, our economy and financial markets are going through a rough spot.

These conditions make enacting the right policies all the more important.

The first important policy, therefore, is one that has already been passed. President Bush worked with Congress to pass and sign into law a bill that injects more than \$152 billion into the economy. The stimulus package is a win for small businesses in three major ways:

- Tax rebates will stimulate short term consumer spending, some of which will flow to small companies;
- A 50 percent bonus deduction on new equipment will stimulate investment that normally would be depreciated over the long term; and,
- The bill increases the limit on expenses that small businesses can deduct from annual income.

In addition to the short-term relief provided by stimulus, it's absolutely vital that we set our sights on long-term underpinnings of a robust economy. This means following the right policies to enable small businesses to succeed.

Of course, the Small Business Administration plays a role in enabling small business success.

But no matter how effective we make SBA's products and services, they are not intended to take the place of policies that create an economic environment in which small businesses can flourish. Our programs are a compliment to sound economic policies that:

- Encourage people to take risks,
- Encourage people to invest in their business,
- Allow those businesses to grow and flourish, and
- Enables the private sector to create wealth.

First, and most important of all, we need to encourage investment by keeping taxes low. The President's tax cuts have provided important capital to small businesses to support economic expansion, job creation and innovation.

We also need to note that small business owners with a business organized as a sole proprietorship, limited partnership, or subchapter S corporation will pay tax on their businesses earnings at the individual tax rate. This is because these businesses do not pay income tax, but instead report their income to their owners. And the owners in turn report the income on their individual income tax returns. So by reducing the individual income tax rate, we are also cutting taxes on these small businesses.

Lower tax rates on dividends and capital gains also reduced the effective tax rate on business investment by more than 15 percent.

President Bush's tax relief, however, is scheduled to expire in 2010. And if it does, small businesses like you are going to be paying an average of about \$4,000 more in taxes every year. This is money that you can't spend on something more important, like your business.

Second, we need to reduce burdensome regulation. You know all about this. Small firms pay about 45 percent more per employee than big firms to comply with federal regulations. These are hidden burdens that can suck the oxygen out of a small, thinly-staffed business.

The annual cost of complying with federal mandates has grown to more than \$1.1 trillion. That means the per-household cost of complying with regulations now exceeds that of health insurance.

We all know that certain regulations are very important in protecting our citizens, our environment, and our way of life. But many times the burden of imposing a regulation exceeds its value. And sometimes, as you know, the enforcement of a regulation isn't done fairly. Both of these are big problems

The third point is that we need help small businesses address the growing cost of health care, which, as you know, is one of the most critical issues today.

70% of our uninsured workforce is employed by a small business or self employed.

Even more alarming is that we see the number of small businesses that offer health insurance declining. And the smaller the business, the less likely it is to offer health care coverage.

It's an issue of cost, and increasingly, small businesses are finding they can no longer afford it.

Today, small businesses are at a fundamental disadvantage because they:

- pay more for health care than larger companies,
- are prohibited from banding together and leveraging their buying power to secure lower rates, even though larger companies and unions can do so.
- often don't have the same tax advantages as big businesses.

Providing small businesses and their workers with flexible, affordable, market-driven solutions, is an important step forward for our economy and in expanding health coverage for all Americans...and it will free up capital to invest in growth.

Finally, I want to mention free trade.

Free trade isn't just about big business...it's increasingly about small business. Small businesses account for 29 percent of exports, and for countries with which we have trade agreements, it's even higher.

The countries we are looking at new free trade agreements with currently have much higher tariffs on exports coming from the U.S. than we have on goods going the other direction. Free trade agreements correct this inequality.

In addition to reducing or eliminating tariffs and fees, free trade agreements work to reduce non-tariff barriers, which can make exporting very difficult for small businesses.

Think about it this way, if large companies that can support a staff dedicated to navigating these hurdles have trouble, what is a small firm of ten or twenty employees going to do? Well-structured free trade agreements can eliminate many of these barriers.

The opportunities are vast, with 95 percent of the world population living outside of the United States. And through free trade agreements, we can help small businesses get access to that market.

At a time when we are understandably focused on current economic conditions, we also have to lift our line of sight to the longer-term underpinnings of a robust economy.

And this means creating the right environment for small businesses. Entrepreneurs bring a tremendous amount of vision and aspiration. The most important thing we can do is to make sure their path to success is not blocked by excessive tax or regulatory burden.

Then we can enable their success with the valuable products and services that SBA offers. Your work is an important part of this. So I thank you for all that you do, and for volunteering your time to help your fellow small business owners. I hope you have a very successful and informative conference.

Thank you.